

Idaho Economic Forecast

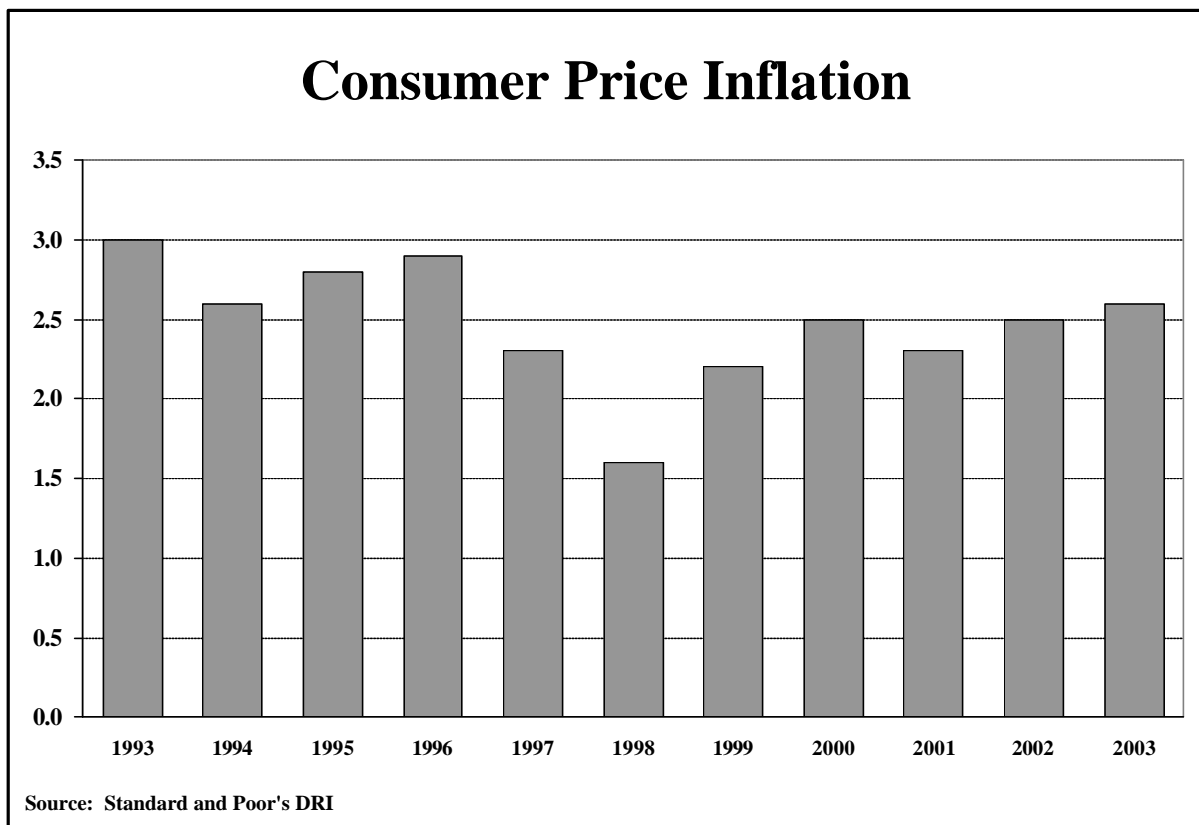
DIRK KEMPTHORNE, Governor

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- **Forecast 1999-2003**
- **Tax Burdens in Idaho and Its Neighboring States**
- **Alternative Forecasts**



**Idaho
Economic
Forecast
1999 - 2003**

State of Idaho
DIRK KEMPTHORNE
Governor

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PREFACE

Idaho has entered its second century of statehood on solid economic ground. After nearly a decade of stop and start economic performance, the 1980s closed with a much-welcomed economic expansion. While not as sharp as the boom years of the 1970s, today's employment and income growth are exceptional in comparison to the 1980s. Much of the current expansion results from Idaho's successful adjustment (and sometimes painful restructuring) of its key basic industries.

Our traditional industries, such as lumber and wood products, food processing, and mining, have become more competitive. Our high-tech sector, which includes Hewlett-Packard, Zilog, and Micron Technology, has bucked recent national trends and undergone substantial expansion. In addition, the tourism and travel sectors have benefited from past investments in such projects as the Coeur d'Alene Resort, the convention centers in Boise and Nampa, and the Kellogg Gondola. Thus, the restructured Idaho economy is better positioned to exploit growth opportunities that will arise this decade, and is expected to sustain solid growth well through the 1990s.

A particularly satisfying aspect of the Gem State's passage into the 1990s is the broad base of economic health in Idaho today. Tourism, high-tech manufacturing, and the commercial sectors are thriving. After persevering through hard times, Idahoans are enjoying the benefits of the state's economic success on a wide geographical basis. Many of Idaho's rural communities that lagged urban growth rates during the 1980s have grown recently. Almost two-thirds of Idaho cities lost population during the previous decade. Many are now rebounding.

While many changes are taking place today, other traditional factors still hold firm. Most notably, Idaho's economy remains directly tied to its resource base. While displaying more resilience to downturns than in the past, these industries are not totally immune from business cycle effects. This heavy dependency on natural resources will bring a host of challenges as Idaho enters the next century. These include competition among agriculture, fisheries, and expanding population needs for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory near Idaho Falls and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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INTRODUCTION

The national forecast presented in this publication is the September 1999 Standard and Poor's DRI baseline forecast of the U.S. economy. The July 1999 *Idaho Economic Forecast* is based on the June 1999 DRI national forecast.

The chart on the cover of this issue of the *Idaho Economic Forecast* features the recent history and short-term outlook for inflation. This graph reveals that inflation has been tame in recent years and is expected to remain that way through the forecast period. This is not to say it will be absent. Indeed, it is expected to accelerate from last year's low of 1.6%. However, even though it will pick up speed, it should remain below 3.0%. The last year that prices rose by 3.0% or more was 1992.

FEATURE

Each year the Idaho State Tax Commission prepares and publishes a study entitled *Comparative Tax Potential: Tax Burden in Idaho and the United States*. Its purpose is to compare the Gem State's tax structure with those of the other states. The highlights of this study's findings are discussed in this forecast's feature article *Tax Burdens in Idaho and Its Neighboring States*. It was written by Alan S. Dornfest and Derek E. Santos. Mr. Dornfest is the Tax Policy Supervisor at the Idaho State Tax Commission and Mr. Santos is an economist with the Idaho Division of Financial Management.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are described in the text.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1984 to 2003 and for every quarter from 1997 through 2002. The solution of the Idaho Economic Model for this forecast begins with the second quarter of 1999.

Descriptions of the DRI U.S. Macroeconomic Model and the Idaho Economic Model are provided in the Appendix. Equations of the Idaho Economic Model and variable definitions are listed in the last pages of this publication.

CHANGES

The employment numbers that appear in this publication are based on monthly data supplied by the Idaho Department of Labor. These data extend through the second quarter of 1999. The estimates for all of 1998 and the first three months of 1999 have been benchmarked. The monthly estimates for the second quarter of 1999 are preliminary. All the monthly data have been seasonally adjusted and converted into quarterly estimates by DFM.

The benchmarked data show that Idaho nonfarm employment grew 2.5% in 1998. It also shows that nonfarm employment advanced at a 3.4% annual rate during the first quarter of 1999. This was slightly faster than the 2.9% pace that had been predicted in DFM's July 1999 forecast. However, the actual employment level was down about 1,000 compared to the July 1999 forecast.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis' (BEA) estimates of Idaho quarterly personal income through the first quarter of 1999. The BEA is scheduled to release its next round of Idaho personal income estimates in late October 1999. These estimates will run through the second quarter of 1999.

The *Idaho Economic Forecast* is available on the Internet at <http://www.state.id.us/dfm/econinfo.htm>. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at <http://www2.state.id.us/dfm/econinfo.htm>.

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